

Exercise 5-4 (20 minutes)

1.

The Alpine House, Inc.
Income Statement—Ski Department
For the Quarter Ended March 31

Sales		\$150,000
Variable expenses:		
Cost of goods sold (200 pairs* × \$450 per pair)...	\$90,000	
Selling expenses (200 pairs × \$50 per pair)	10,000	
Administrative expenses (20% × \$10,000)	<u>2,000</u>	<u>102,000</u>
Contribution margin		48,000
Fixed expenses:		
Selling expenses		
[\$30,000 – (200 pairs × \$50 per pair)]	20,000	
Administrative expenses (80% × \$10,000)	<u>8,000</u>	<u>28,000</u>
Net operating income		<u>\$ 20,000</u>

*\$150,000 ÷ \$750 per pair = 200 pairs

2. Since 200 pairs of skis were sold and the contribution margin totaled \$48,000 for the quarter, the contribution of each pair of skis toward covering fixed costs and toward earning of profits was \$240 (\$48,000 ÷ 200 pairs = \$240 per pair). Another way to compute the \$240 is:

Selling price per pair	\$750	
Variable expenses:		
Cost per pair	\$450	
Selling expenses	50	
Administrative expenses		
(\$2,000 ÷ 200 pairs)	<u>10</u>	<u>510</u>
Contribution margin per pair		<u>\$240</u>